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DIRECTORATE OF
INTELLIGENCE

Intelligence Report

The Economic Situation in South Vietnam (Biweekly)

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence

The Economic Situation in South Vietnam

Summary

Government revenues increased 63 percent in 1969, but still were far short of expenditures. Tax collections on imports almost doubled and accounted for about 60 percent of total revenues.

Retail prices in Saigon, which increased about four percent during January, rose another ten percent during February largely because of the greater demand for goods associated with the Tet holidays. Black market currency and gold prices remained very high during the last half of February. The price of dollars reached a level more than three times the official exchange rate.

ANNEX: Monthly and Weekly Currency and Gold Prices
(Graph)

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Tax Collections in 1969

1. South Vietnamese Government tax collections increased 63 percent in 1969 compared with an increase of only one percent in 1968* when economic activity was depressed by the enemy offensives. Although the government enacted several measures to increase both domestic and foreign trade revenues during 1969, the largest part of the increase resulted from a 21-percent increase in commercial imports in 1969. Taxes on imports have accounted for more than half of total revenues during the past several years, except during 1968 when imports declined for the first time since 1959.

Government Revenues
(billion piasters)

	<u>1967</u>	<u>1968</u>	<u>1969 prelim.</u>
Domestic			
Direct taxes	3.0	4.3	5.4
Indirect taxes	5.0	6.5	7.4
Excise taxes	7.9	7.1	10.7
Registration taxes	3.0	3.0	4.9
Receipts of government agencies	1.6	2.3	4.5
National lottery	1.1	1.1	1.8
Miscellaneous	3.9	3.5	2.2
Subtotal	<u>25.5</u>	<u>27.8</u>	<u>36.9</u>
Foreign Trade			
Customs and austerity taxes	15.8	17.5	30.5
Perequation taxes	8.0	8.6	21.5
Equalization taxes	4.6	0.6	0.1
Subtotal	<u>28.4</u>	<u>26.7</u>	<u>52.1</u>
Total	<u>53.9</u>	<u>54.5</u>	<u>89.0</u>

*All calculations are based on data in current piasters. In real terms, however, i.e., after adjusting for the amount of inflation, government revenues declined in 1968 and increased less than 25 percent in 1969.

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2. During 1969 the government raised perequation and austerity tax rates on most imports and revised the tariff schedule for all imported goods. According to US officials in Saigon, these measures resulted in an increase of about 10.5 billion piasters during 1969. The only measure affecting domestic taxes was the introduction of a system for prepayment of the production tax, which is the largest source of indirect tax revenue.

3. Despite the increase in tax collections, government revenues covered only 62 percent of total expenditures in 1969. In 1967 and 1968 about half of the government's expenditures were financed by revenues. Deficits have been financed by US aid and government borrowing from the National Bank of Vietnam, i.e., printing piasters. It is estimated that during 1970 total revenues will rise more than 55 percent, largely because of the increases in import taxes enacted in late 1969. Despite this increase, there will remain a sizable deficit because of the large planned increase in military expenditures.

Prices

4. During February the average retail price index for Saigon increased 10 percent above that for January, largely because of increased demand associated with the Tet holidays. During the first two months of 1970 retail prices increased almost 14 percent compared with an increase of less than one percent during January-February 1969.

5. The monthly average price index for imported commodities increased two percent in February, returning to the level of December 1969. On 20 February the government announced a 100-percent tax increase on imported newsprint, which had been exempted from the general increase in import taxes levied in October. According to Minister of Economy Ngoc, the increase is designed to protect the domestic paper industry and reduce foreign exchange expenditures on newsprint, which in 1969 amounted to \$3 million. Since newsprint is no longer produced in any significant quantity

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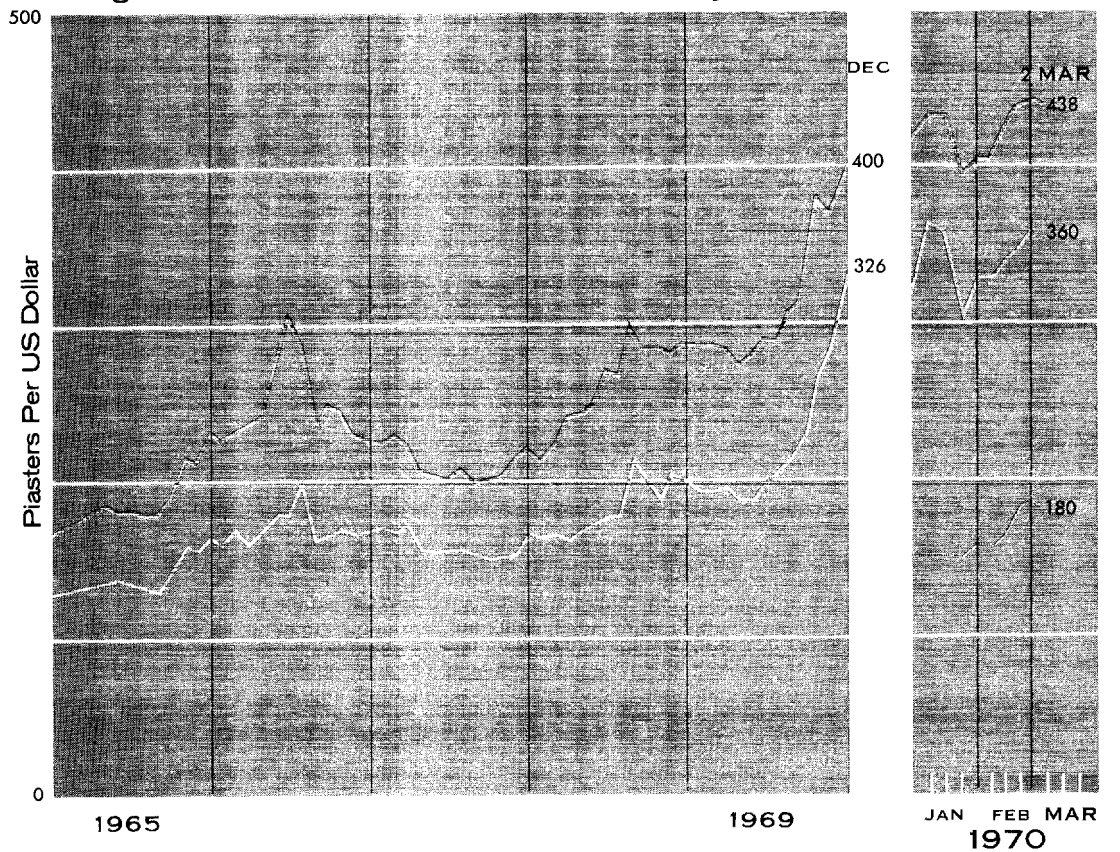
in South Vietnam, however, it would appear that the government had other reasons for the tax increase. The Saigon newspapers claim that the tax hike is politically motivated and aims to force papers critical of the government out of business. On 2 March all Saigon daily newspapers began a three-day strike to protest the increase, but the government apparently does not intend to rescind the increase.

Currency and Gold

6. Free market currency and gold prices in Saigon remained high during the last half of February. During the two weeks ending 2 March the price of dollars increased 15 piasters to 360 piasters per dollar, or more than three times the official exchange rate. The price of a dollar's worth of gold leaf fluctuated between 436 and 441 piasters, closing at 438 piasters on 2 March. The rate for MPC (scrip) reached a new high of 188 piasters per dollar on 24 February, but declined slightly to 180 piasters by 2 March. (A graph on monthly and weekly currency and gold prices is included in the Annex.)

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Saigon Free Market Gold and Currency Prices



GOLD Basis gold leaf worth \$35 per troy ounce

US \$10 MPC Military Payment Certificates (scrip)

US \$10 GREEN

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